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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 1995*/

*/ An annex contains follow-up actions to implement the Board's recommendations for 1994 as well as the comments of the Board thereon.

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Introduction

1. In accordance with paragraph 22 of the statute of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period 1 January 1995 to 31 December 1995. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plans and performs the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit included a general review of financial systems and internal controls; and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out in the headquarters of the UNHCR at Geneva and at its branch offices in Azerbaijan, Bosnia-Herzegovina, Croatia, Eritrea, Ethiopia, Iran, the former Yugoslav Republic of Macedonia, Russian Federation, Rwanda, Tanzania and Uganda.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The reviews concerned the efficiency of programme budgeting and budgetary control and programme planning, performance and monitoring. The Board also reviewed the efficiency of the procurement system adopted by the UNHCR headquarters and branch offices, financial management and personnel management.

5. The Board continued its practice of reporting the results of specific audits through audit observations and management letters containing audit findings recommendations to the Administration.

6. A summary of the main recommendations and findings is reported in paragraphs 10 to 28 below. The detailed findings of the audit are reported in paragraphs 29 to 134.

7. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in this report were communicated to UNHCR. The Administration has confirmed the facts on which the Board's observations and conclusions are based and has provided explanations and answers to the Board's queries. The report is divided in two parts covering the audit of financial statements and management issues, respectively.

Follow-up on actions taken on previous audit recommendations

8. As requested by the General Assembly in its resolution 50/204 of 23 December 1995, the Board has reviewed the measures taken by UNHCR to implement the recommendations made in its report for the year 1994. The Board welcomes UNHCR's positive responses to its recommendations. Details of the actions taken and the comments of the Board are outlined in the annex to the present report.

9. The Board recommends that UNHCR should take further steps to implement the following outstanding recommendations of the Board:

(a) Non-receipt of audit certificates in respect of funds provided to implementing partners (see paras. 34 to 36);

(b) Delays in signing sub-agreements with implementing partners (see paras. 85 to 89);

(c) Delays in submission of project monitoring reports (PMR) by field offices and sub-project monitoring reports (SPMR) by implementing partners (see paras. 95 to 98);

(d) Non-receipt of receiving reports against Purchase Orders (see paras. 101 to 105).

Summary of recommendations

10. The Board recommends that the following actions, presented in the order of priority, should be taken:

Audit certificates

(a) The accounts of the implementing partners relating to UNHCR funds should be regularly audited by independent audit authorities. Further the UNHCR Administration should obtain audit certificates provided by them to verify the correctness and propriety of the expenditures incurred by the implementing partners (see paras. 34 and 35).

Programme budgeting and budgetary control

(b) The reasons for variations between the initial and revised budgets and the actual expenditures in respect of programme components should be analyzed and the findings should be submitted to the Executive Committee every year (see para. 54);

(c) Inputs for budget estimation should be worked out more reliably in concert with field offices. For this purpose, the database of caseloads (number of beneficiaries) and other required inputs should be updated periodically (see para. 57);

(d) A factor for inflation multipliers and exchange rate variations should be included in respect of the field office budgets of major expenditure centres. The method of computing the vacancy factor also needs refinement (see paras. 59, 61 and 63);

(e) Financial Management Information System (FMIS) should be modified to provide for common staff costs percentages separately for general service and professional staff (see paras. 65);

Programme management

(f) The impact of uneven funds availability on project formulation and implementation should be reviewed. The inputs for programme planning should be assessed more reliably. (see paras. 68 and 71);

(g) Appropriate criteria should be established for selection of beneficiaries for projects, after obtaining adequate data and information. The process of beneficiary selection should be documented to enable subsequent evaluation of achievements (see para. 77);

(h) The instructions issued to the field offices regarding preparation of work plans on a selective basis should be reviewed. The Administration should also review the format of the work plan provided in the UNHCR Manual to make it more programme specific and an effective management tool (see paras. 80 and 81);

(i) Precise and well-defined performance indicators should be included in the sub-project agreements (see para. 84);

(j) Programme deliveries should be planned and provided in accordance with a pre-determined time-schedule to suit the needs of beneficiaries (see para. 91);

(k) The capabilities of implementing partners to implement major projects should be assessed in more detail. The deficiencies noticed in the implementation of a project by an implementing partner in Tanzania, should be investigated for taking appropriate remedial measures, including recoveries of overpayments (see para. 94);

(l) UNHCR should ensure that PMRs are received on time and used for project monitoring purposes by all programme managers. Implementing agencies should be advised to submit sub-project monitoring reports (SPMRs) regularly and with complete details (see paras. 96 and 98);

(m) Appropriate procedures should be established by field offices to evaluate programme achievements and outputs. The findings of such evaluations shall be utilized in programme planning and implementation (see para. 100);

Procurement

(n) Field offices should be required to send receiving reports, giving complete details, within a set period, in respect of goods ordered on their behalf by the UNHCR headquarters. Prompt follow-up action should be taken in all cases to call for outstanding reports, analyze them on receipt and file insurance claims where goods have been short-delivered or delivered in damaged condition (see para. 105);

(o) Annual procurement plans should be obtained from all field offices and procurement planning should be strengthened further to ensure economy and efficiency in procurement planning (see para. 112).

(p) UNHCR field offices should be instructed to review the procurement procedures adopted by implementing partners to ensure that they adhere to competitive bidding procedures (see para. 117).

(q) The procedures for need assessment and requisitioning for bulk items should be reviewed in light of the unplanned procurement of Lysol for a field office which resulted in wasteful expenditure of $3.04 million (see para. 121);

Human resources management

(r) Additional training programmes should be conducted in subjects closely related to the operational requirements of UNHCR. Action should also be taken to obtain a commitment from the sponsoring agencies that the trained personnel would work for an appropriate period of time in the areas in which they were trained (see para. 126);

Integrated Management Information System (IMIS)

(r) UNHCR should establish a strategy for developing and updating its information system (IS) compatible with the organization's corporate objectives. The strategy should include the steps required to customize IMIS to meet the specific requirements of UNHCR and priorities for implementation (see para. 131);

Financial statements

(s) The Accounting policies and notes to the accounts should be provided in the financial statements distinctly and clearly with cross-references to individual statements (see para. 33).

Summary of findings

United Nations system accounting standards

11. The financial statements for the year ended 31 December 1995 generally conformed to United Nations system accounting standards except for the treatment of non-expendable property, income generating activities and disclosure of end-of-service liabilities (see para. 29).

Liquidity position

12. The liquidity position of UNHCR was satisfactory as at 31 December 1995. This was partly due to substantial cancellation of the prior year's unliquidated obligations which suggested possible over-budgeting in previous years (see paras. 37 and 39).

Programme budgeting and budgetary control

13. The actual expenditures of UNHCR varied substantially from the budget estimates during the period from 1993 to 1995. In respect of several field offices, the variations between budget estimates and actual expenditures exceeded by more than 25 per cent which suggested that programme inputs were not estimated realistically. There were also substantial under-utilization of appropriations (see paras. 50 to 52).

14. The budget documents submitted to the Executive Committee did not include detailed quantitative analysis of budget variations in respect of programme components (see para. 53).

15. The budgeting procedures adopted by UNHCR do not provide for re-costing of field office budgets for inflation and exchange rates. The method of computing the vacancy factor is also not accurate (see paras. 58 to 62).

Programme planning

16. In several cases, programme planning suffered on account of inaccurate estimations of availability of funds, caseloads and needs assessment of refugees (see paras. 67, 70 and 73).

17. Identification of projects for implementation was not preceded by detailed preparatory work. Similarly, the basis for selection of beneficiaries was not adequately documented (see paras. 75 and 76).

18. Several field offices did not prepare work plans in respect of programmes and projects implemented by them. Also, there were omissions to include project specifications in sub-agreements signed with implementing partners (see paras. 79, 80, 82 and 83).

19. There were persistent delays in the field offices in signing sub-agreements with implementing partners (see paras. 86 to 88).

20. In some cases, there were delays in the delivery of assistance to beneficiaries, indicating deficiency in programme planning and implementation (see paras. 90).

21. There were several deficiencies in the implementation of a project by an implementing partner in Tanzania. This resulted in inefficient programme delivery as well as substantial financial loss to UNHCR (see para. 93).

22. There were persistent delays in submission of sub-project monitoring reports (SPMR). Project evaluations were also inadequate (see paras. 97 and 99).

Procurement

23. A substantial number of receiving reports were overdue from field offices for periods ranging from less than six months to over four years. In some cases, receiving reports were incomplete. In the absence of complete receiving reports, there was no assurance that goods had reached the destinations in good condition (see paras. 102 to 104).

24. Annual procurement plans for 1995 were received from only 52 out of 117 field offices. As a result of unplanned procurement, one field office had several undistributed stocks of commonly used items procured in 1992 (see paras. 109 and 110).

25. In some cases, there was no evidence to show that UNHCR field offices had verified adherence to procurement procedures by implementing partners, as provided under sub-agreements (see paras. 113 to 116).

26. The UNHCR suffered financial loss of about $3.04 million in procurement, re-deployment and re-sale of Lysol, a disinfectant, due to the retroactive refusal of the host country to allow the import (see paras. 118 to 120).

Human resources management

27. There was substantial improvement in the number of training programmes conducted and in the number of persons trained from governmental and non-governmental organizations. There was, however, scope to intensify training programmes in areas closely related to UNHCR's operational requirements (see para. 122).

Integrated Management Information System (IMIS)

28. In the absence of a well-documented information system (IS) strategy, UNHCR was unable to ensure that IMIS developed at United Nations Headquarters would meet UNHCR's requirements. (see paras. 127-130).

Part I: Financial statements

United Nations system accounting standards

29. The financial statements and the schedules prepared by the Administration generally conform to the accounting standards as approved by the General Assembly in Resolution 48/216C of 23 December 1993, and the United Nations system accounting standards Revision I (ACC/1995/20 annex III) except for the treatment of non-expendable items, income-generating activities, and disclosure of end-of-service liabilities.

30. Concerning the treatment of non-expendable items, the Board observed that the value of non-expendable property disclosed in the notes to the accounts represent only those relating to 75 countries where the new Asset Management System (MINDER) has been implemented. As a result, the disclosure relates to only about 80 per cent of the total assets.

31. The accounting standards provide that where an organization has some activities which are commercial in nature, it may be appropriate to apply international accounting standards. The Board noted that UNHCR had not applied

such standards in the case of sale of public information materials, which the Board regarded as a commercial activity.

32. The liabilities for end-of-service benefits have neither been provided for nor disclosed as required under the United Nations system accounting standards, on the grounds that the UNHCR financial policies do not have such requirements.

Accounting policy

33. The Board noted that in the financial statements, the `Accounting Policies' were not clearly spelt out, but were intermingled with various notes forming part of the accounts. The Board recommends that the Administration should establish an appropriate format for disclosing accounting policies and notes to the accounts separately.

Audit certificates in respect of expenditures incurred by implementing partners

34. The Board, in its report for 1994, had pointed out that the implementing partners of UNHCR did not submit audited financial statements and audit certificates in respect of substantial amounts provided to them by UNHCR for programme implementation. UNHCR had informed the Board that the policy and practice regarding insistence on audit certificates are under active consideration.

35. The Board's review of the accounting records of some implementing partners selected at random in the field offices indicated several deficiencies in maintenance of accounts. The UNHCR should ensure that the accounts of the implementing partners relating to UNHCR funds are audited regularly by independent audit authorities. UNHCR should also ensure that these audit certificates are submitted by the implementing partners in sufficient time for the Administration to have the necessary assurance about the regularity, compliance and propriety of the expenditures incurred by the implementing agencies and reflected in the financial statements.

36. The UNHCR Administration stated that it insists on periodic SPMRs which include a financial monitoring report and act as one of UNHCR's principal control mechanisms. About 75 per cent of the total disbursement to implementing partners (before the last instalment is paid) are covered by SPMRs. Further, audit certificates are not due until six months after the sub-project liquidation date; further, more than 50 per cent of the projects had their liquidation dates extended. Meanwhile, UNHCR has been following up with implementing partners to expedite audit certificates.

Liquidity position

37. The Board noted that the total assets of UNHCR as at 31 December 1995 amounted to 2.58 times the total liabilities. The Board was pleased to observe that the liquidity ratio has improved from 1.68:1 as at 31 December 1993 to 2.58:1 as of 31 December 1995. The Board also noted that the quick ratio which measures the liquidity position in terms of cash or near cash had improved from 0.74:1 as at 31 December 1993 to 1.43:1 as at 31 December 1995.

38. The Board verified that even if the entire outstanding pledges as at 31 December 1995 were excluded from the total value of assets, the balance was adequate to liquidate all outstanding liabilities as at 31 December 1995 by 1.41 times. The Board, however, noted that the improved liquidity ratio as at 31 December 1995 was partly due to substantial cancellation of the prior years' unliquidated obligations amounting to $ 95.18 million. The Board observed that in the following cases, the cancellation of obligations at the end of the year was substantial, indicating possible over-budgeting in the prior years.

	Unliquidated Obligations of prior years (in US dollars)	Cancellations (in US dollars)	Percentage
Annual Programme	54 989 750	20 886 769	38
Emergency in Horn of Africa	9 961 240	4 265 640	43
Humanitarian Assistance to Former Yugoslavia	82 318 205	26 897 662	33
Burundi/Rwanda	58 132 442	12 916 532	22
Other Trust Funds	51 028 529	19 164 826	38

39. The Board recommends that the Administration should exercise closer control in estimating budgetary requirements for its programmes in order to avoid raising obligations which are not essential.

Investments

40. As at 31 December 1995, UNHCR had invested $262.5 million in different currencies as short term deposits, and $10.1 million in 48 hours call accounts. The average rate of interest earned during the year was 5.83 per cent against 5.11 per cent in 1994.

41. UNHCR had concluded an agreement with a government offering specific advantages linked to the purchase of local currency through a debt swap operation. According to the Administration, the arrangement represents a special type of currency conversion and the financial benefits have consequently been recorded as exchange gains. However, profits and discounts arising from this arrangement should have been recorded as profits from investments.

Outstanding pledges

42. The total amount of outstanding pledges (excluding contributions in-kind) as at 31 December 1995 amounted to $240.6 million as against $268.1 million outstanding as at 31 December 1994. The Board noted that only about 16 per cent of the total outstanding pledges related to 1994 and prior years and a substantial amount, 84 per cent, related to 1995.

43. The Board encourages the Administration to collect the outstanding pledges expeditiously, with particular reference to 1994 and 1995 since the outstanding pledges for those years are substantial.

Receivables from other United Nations agencies

44. The Board verified that as per UNHCR books the amount due from the United Nations Office at Geneva as at 31 December 1995 was $4.2 million; but the balance as per the accounts of the United Nations Office at Geneva was only $2.1 million. The Board recommends that these balances should be analysed in detail, in concert with the United Nations Office at Geneva.

Write-off of losses of cash, receivables and property

45. Cash and receivables amounting to $162,240 were written off during the year. The write-off included an amount of $116,841 representing loss due to theft and robbery in the field office in Croatia. The write-off also included a loss amounting to $20,951 relating to 1991 due to misappropriation of funds by a staff member at Mbabane, Swaziland.

46. Details of property written off during the year and categories of losses of property as reported to the Property Survey Board by various field offices are given below:

Category	Value US $
Civil Disturbances/Looting	228 626
Hijacking (armed robbery)	422 590
Theft	598 354
Loss of property (other circumstances)	297 506
Fire or other circumstances	103 785
Wear and tear of tele-communication equipment	88 117
Total	1 738 978

47. The Board noted a substantial increase in the losses reported during the year as compared to 1994 ($756,112).

Ex-gratia payments

48. The Administration reported that an ex-gratia payment of $610 was made during the year in accordance with UNHCR Financial Rule 10.5.

Part II: Management issues

Programme budgeting

49. The General Assembly had, in resolution 48/228 of 23 December 1993 requested the Board to review, in the course of its audit of regular budget accounts, the development of assumptions in the presentation of programme budget and performance reports, with a view to suggesting improvements. The Board carried out a review of the budgetary process in UNHCR with reference to the period from 1993 to 1995.

50. The Board noted that during 1993 to 1995, at the macro level, the initial budgets, which are prepared by the UNHCR Administration about 13 months before the relevant budget year, varied from the actual expenditures by 29 per cent to 45 per cent. Similarly variations between the revised budgets and the actual expenditures during the above period ranged from 7 per cent to 13 per cent. Since the revised budget is normally prepared in May of the relevant budget year, the Board considers that there is scope to improve the accuracy of the estimates, particularly of the revised budgets.

51. The Board's analysis of some 40 field offices, covering both general and special programmes which accounted for almost 75 percent of the total expenditures of UNHCR during the above three-year period disclosed that budget variations exceeded 25 per cent of the initial and revised budgets in many cases as shown in the table below:

	1993	1994	1995
Number of cases where initial budget was:			
(a) exceeded by 25 per cent or more	17	13	11
(b) underspent by 25 per cent or more	7	11	10
Number of cases where revised budget was:			
(a) exceeded by 25 per cent or more	4	3	3
(b) underspent by 25 per cent or more	12	14	17

52. The Board observed that in a few cases, during the period under review, the actual expenditures had exceeded the initial budget by 96 per cent to 100 per cent or were less by between 268 and 350 per cent. Similarly, in certain offices as compared to the revised budget, there was over-expenditure ranging from 43 to 78 per cent or under-expenditure ranging from by 600 to 706 per cent. Maximum budget variations occurred against the following country programmes:

	Percentage variation from initial budget			Percentage variation from revised budget		
	1993	1994	1995	1993	1994	1995
Angola	-268	89	-44	-50	-86	43
Eritrea	----	-563	93	----	83	-32
West Africa	66	-248	-350	-21	-297	25
Hong Kong	-155	-69	-51	-129	-10	-92
Vietnam	10	-9	-56	0.79	-21	-104
Georgia	-----	----	-262	----	-114	-66
Iran	-27	-72	-14	-58	-99	-54
Cyprus	-2	21	-62	-0.88	21	-61
Other countries in West Africa	-273	-341	-10	-706	-19	-14
Other countries in North Africa	28	33	64	3	3	-600

53. The budget documents presented by the UNHCR Administration to the Executive Committee for approval did not provide detailed quantitative analysis of the reasons for variations between the revised budgets and the actual expenditures for each year. In clarification, the Administration stated that explanation for the variations are to be found, inter alia, in the regional overview presented to the Standing Committee and that in a great majority of cases these variations

reflect political developments outside UNHCR's control. However, analyses of the actual expenditures and the revised estimates of the following year are carried out; but the Executive Committee is not in a position to examine country programmes at a lower level of detail than what is currently made available.

54. The Board recommends that the UNHCR Administration should analyze the reasons for variations between the initial and the revised budgets and the actual expenditures for each year. The Board also suggests that budget documents presented to the Executive Committee should include a statement showing the initial budget, the revised budget and the actual expenditures and an analysis of the specific programme components where variations were substantial, together with reasons why these could not be foreseen.

Estimation of budgetary inputs

55. The Board's test examination in selected field offices disclosed that the substantial variations between the budget estimates and actual expenditures were, in several cases, attributable to inaccurate estimation of caseloads and other budgetary inputs. For instance, in the Former Yugoslav Republic of Macedonia, despite substantial revisions of performance budgets to reflect changing case loads, the actual expenditures were only 68 to 72 per cent of the revised budgets in both 1993 and 1994. In addition, the Board's audit of Regional Office, Moscow indicated that inaccuracy in caseload estimations and other input requirements had resulted in substantial budget variations. Similarly, in the Liaison Office, Baku, Azerbaijan, the expenditures under the administrative budgets were less than the revised budgets by 43 to 55 per cent during 1993 and 1994 due to over-provisioning of requirements.

56. The Administration stated that action had been taken by the Regional Office, Moscow to update the database of caseloads and attributed the savings to non-materialization of certain proposed additional expenditures. The Liaison Office, Baku stated that part of the savings was due to expenditure controls. The Board considers that these developments could have been identified prior to the preparation of the budgets.

57. The Board suggests that input requirements for budget estimation should be determined more accurately by building up adequate databases and by careful analysis of input requirements.

Inflation

58. Under the budgeting procedure adopted by UNHCR, no provision is made for inflation though UNHCR carries out substantial activities in several countries which suffered high inflation. The Board's analysis of the pattern of expenditures in different countries indicated that of the 117 countries where UNHCR has operations, 18 countries accounted for about 60 per cent of the total expenditures incurred in 1995. The Board noted further that the computerized Annual Budget Preparation System (ABPS) in use permits the application of an inflation rate multiplier to a part or all of the budget, as required, to cover a single location or a range of locations.

59. The UNHCR Administration informed the Board that they saw limited value in attempting to analyze and forecast budgetary parameters including inflation and exchange rates in view of the additional resources required. The Board, however, recommends that UNHCR should estimate the rates of inflation in its major operational centres, as derived from the consumer price index of major inputs, and provide for this in the revised budgets, so as to improve the accuracy of the budgeting process.

Exchange rate

60. In order to provide for any fluctuations in the exchange rate between the US dollar and the Swiss franc, the Administration analyses the average exchange rates between the two currencies over the preceding five months and assesses the possible future trends, based on projections carried out by three major banks in Geneva. The resulting estimate is then adopted as the exchange rate for that year's revised budget and for the next year's initial budget figures.

61. The Board noted that a similar analysis is not undertaken for recosting the field office budgets. In these cases, UNHCR adopts the rate of exchange prevailing in each country as on 1 September or 1 October depending on when budget submissions are consolidated and calculated. The UNHCR Administration stated that given the limited staffing resources it would be difficult to undertake a detailed analysis of exchange rates in each country. The Board, however, recommends that the averaging method should be adopted for UNHCR's major operational centres so as to improve the accuracy of budgets.

Vacancy rates

62. The vacancy rate is one of the important variation settings adopted for budget preparation. The Board noted that the Administration does not analyze the difference between the budgeted vacancy factor and the actual vacancy factor; but the decision whether to update or to adjust vacancy rates in the budget master file is taken by comparing the previous year's expenditures for salaries with the previous year's budget figures for each geographical region. The Board considers that this would not be an accurate substitute for the estimation of the actual vacancy factor, since changes in the ratio of salary expenditures to the budgeted amounts for salaries in a previous year may be caused by several factors including variations in exchange rates and post adjustment multipliers.

63. The Board suggests that in order to improve the accuracy of budgets, the Personnel Information On-line Update System should be modified to enable it to compute the actual vacancy rate, which should form an input into the ABPS variation setting. The Administration agreed in principle to the Board's suggestion.

Common staff costs

64. The Board noted that the actual common staff costs incurred in the previous year and the percentage of variations as compared to the corresponding budgets are computed through Financial Management Information System (FMIS) and used as an input into the variation settings of the ABPS. The ABPS was designed to accept the input for common staff costs both for professional and general service category employees of UNHCR since the common staff costs for both categories would be different.

65. However, the Board noted that since the FMIS is unable to calculate the relevant percentage of common staff costs for each category separately, the same percentage of common staff costs is used for both categories of employees. The Board pointed out that this would affect the accurate forecasting of the total staff costs. According to the Administration, UNHCR's existing account structure prevented separate tracking of common staff costs between professional and general service staff; but the matter was under review. The Board suggests that UNHCR should modify FMIS suitably to provide common staff cost percentages for both general service and professional category employees separately.

Programme management

66. The Board had, in its report for the year ended 31 December 1994, reviewed the overall control exercised by UNHCR on its implementing partners in the context of the revised programming policy. During 1995, the Board reviewed

various programmes and projects implemented by UNHCR through its field offices to assess the efficiency of programme planning, performance, monitoring and reporting by UNHCR field offices.

Project formulation

Estimation of availability of funds

67. Since UNHCR's programmes in field offices essentially depend on the availability and flow of funds, it is necessary for the Administration to establish a reliable estimate of allotments for each programme/project so that programme planning is on a sound footing. The Board noted two cases, one in Azerbaijan and the other in Rwanda, where the Letters of Instruction (LOI) had to be amended several times to provide for increases in obligations consequent upon increased availability of funds, and also to take into account the expected level of project implementation. In the first instance, in Azerbaijan, the programme was also adversely affected by the fact that many implementing partners had begun to dismantle their infrastructures before adequate funding was made available.

68. The UNHCR Administration stated that Special Programmes are governed by the actual availability of funds; but the Board considered that underlying this were deficiencies in programme planning. The Board therefore recommends that UNHCR should review the impact of uneven availability of funds on formulation and implementation of Special Programmes and establish an appropriate strategy, to ensure reliable programme formulation and implementation.

Caseload estimation

69. The Board, in its report for the year ended 31 December 1993, had pointed out the need to assess the caseloads of refugees accurately to ensure that the programme benefits reach the intended beneficiaries. The Administration has since taken action to prepare registration guidelines and to train the field personnel in estimations of caseloads. The Administration has also supplied a computerized registration system to a number of field offices. The Board's review, however, disclosed that in several cases, the process was not yet of the required standard.

70. The Board's audit of UNHCR field offices in Azerbaijan, Bosnia, Ethiopia, the Former Yugoslav Republic of Macedonia, the Russian Federation and Tanzania disclosed that caseloads had not been properly estimated. The Board noted that in Ethiopia, the number of refugees estimated for a care and maintenance programme for 1994 was 100,000; but on actual counting in September 1994 the total number of refugees was established at 184,900. In the Former Yugoslav Republic of Macedonia, in the initial project submission for 1993, the number of refugees registered by the Government as of November 1992 was indicated as 31,452 as compared to a figure of 20,000 in the project description. The number was further reduced to about 6,000 in the subsequent months. The Management stated that during 1992 and early 1993 the initial figures of refugees were provided by the Government, in part using information provided by the Red Cross but UNHCR revised this on the basis of the refugees' needs and as their status became clear in April 1993. In Azerbaijan, UNHCR had increased the caseloads of the most vulnerable section among internally displaced persons (IDPs) and refugees from 53,000 in early 1993 to 300,000 in 1994 in consultation with the Government and implementing partners; but the basis for the estimations was not on record.

71. The Board is of the view that in the absence of a reasonably accurate assessment of the caseloads of refugees, project planning would not be realistic. The Board, therefore, reiterates that caseloads should be assessed more reliably and the data collected through field surveys should be used establish the

project/ programme plans on a more realistic basis. The Board also suggests that the UNHCR Administration should review the practices followed by different field offices in assessing caseloads and should provide assistance in resolving practical problems, wherever necessary, so that programme planning could be carried out on a more reliable basis.

Needs analysis

72. In view of the limited availability of resources and the large number of beneficiaries to be covered, it is essential to design UNHCR programmes and projects on the basis of detailed assessment of needs in terms of assistance. The Board's test check in one field office, however, did not provide adequate assurance that this aspect had received the required attention.

73. The Board noted that in Tanzania, during the estimation of caseloads, details such as gender, age, marital status and names of dependents of refugees were not collected, which would impact on the effectiveness of programme planning and budget estimation. Management stated that in the absence of adequate resources and necessary expertise, they had not been able to collect the required demographical data in the past; but recognized the importance of collecting comprehensive demographic information for detailed planning of activities in the health, education and community services sectors. UNHCR proposed to complete the re-registration exercise expeditiously.

74. The Board considers that in the absence of reliable needs-assessment of the target groups, programme planning will tend to be deficient. The Board, therefore, recommends that the UNHCR Administration should give appropriate emphasis to careful needs-assessment by field offices as part of programme planning exercise.

Selection of beneficiaries

75. Careful selection of beneficiaries and the identification of projects and programmes suited to their requirements are an essential part of programme planning. The Board's scrutiny disclosed that adequate preparatory work and planning did not always take place before projects were identified for implementation. For example, in Azerbaijan, in the water and sanitation sector, the project documents proposed to provide water pumps in 15 "most needy" regions, but the method of selection of the regions was not evident from the records. Similarly, in a project to provide more durable shelter to those in particularly desperate situations, the basis for selection of the 10,000 beneficiary families was not on record.

76. According to the Management, the implementing partners were actively involved in programme planning work and had been provided with a summary of priority groups. The Management also stated that obtaining comprehensive information before identifying the beneficiaries would have required large resources and time. However, based on the recommendations of the Board, the Liaison Office, Baku carried out a limited survey of more than 2,300 refugee families in different regions of the country which would help UNHCR to clearly identify and confirm the beneficiary groups.

77. The Board recommends that UNHCR should obtain necessary data and establish the criteria for selection of beneficiaries for each project, which should be appropriately documented.

Work plans

78. The Board, in its report for the year ended 1994, had emphasized the need to prepare detailed work plans. The Board noted that the UNHCR Administration

had since instructed field offices that work plans need be prepared only on a selective basis.

79. The Board's audit of UNHCR's field offices in Azerbaijan, Bosnia, Ethiopia, the Former Yugoslav Republic of Macedonia, Russian Federation and Tanzania disclosed that work plans had not been prepared for the programmes and projects undertaken by them. In Bosnia, the sub-project description mentioned that the accomplishment of the activity in accordance with the work plan would be one of the performance indicators, but no work plan was prepared on the ground that work plans were neither viable nor of any value in planning and monitoring the kind of special operations undertaken by them. Similarly, in 24 sub-projects implemented in Ethiopia in 1995, no work plans were prepared before commencement of the projects, and this contributed to delays in their implementation.

80. The Board noted that all projects for which work plans were not prepared were not emergency projects. The Board considers that in the absence of work plans, it would be difficult to monitor and review implementation of programmes and projects. The Board also believes that the absence of work plans would affect financial planning and procurement action even for care and maintenance projects. The Board, therefore, recommends that UNHCR should review its decision to permit field offices to prepare work plans only on a selective basis.

81. The Board also suggests that the UNHCR Administration should review the format of the work plan to make it more programme-specific and to include appropriate performance indicators.

Project specifications

82. Under a sub-project agreement in Bosnia-Herzegovina, an implementing partner was to rehabilitate two apartment blocks and 34 private homes, but the project documents did not identify the structures in terms of location or ownership. According to Management, it was not always possible to provide tangible performance indicators in sub-project agreements due to the fluid nature of the operations but the apartment blocks and private homes were selected according to the needs cited by the municipal authorities, who were responsible to negotiate ownership. The Board considers that the absence of clear project descriptions, specifications and performance indicators would impact the smooth implementation and monitoring of programmes.

83. In Azerbaijan, the Board noted that the envisaged outputs and end results of various programmes and activities planned under the Country Operations Plan had not been specified in adequate details at the planning stage, along with the milestones and time- schedules to be achieved. This would again hamper the monitoring and evaluation process. Management explained that in several instances, objectives were quantified and in others, quantification was subject to further surveys and more detailed planning. However, they agreed that inputs and outputs should be specified more precisely.

84. The Board emphasises that precise and well-defined project specifications and indicators be provided as an integral part of the sub-project agreements, so as to enable monitoring and evaluation of programmes and activities.

Project implementation

Delays in signing sub-agreements

85. The Board had, in its previous reports on the UNHCR, pointed out persisting delays in signing agreements with implementing partners. The Board's audits of field units during 1995 indicated that there was no appreciable improvement in the position.

86. In Ethiopia, in 13 out of 17 projects approved for implementation during 1994 and 1995, there were delays of up to eight months in signing agreements with implementing partners. The Board noted that the delay in signing the agreement with a major implementing partner had resulted in payment of $614,764 as salaries and allowances to about 660 redundant staff who were to be separated at the beginning of 1994. The Management clarified that the delay was due to the refusal by the agency to provide staffing tables and that though an advance was granted to the agency in the beginning of 1994 for severance benefits to the redundant staff, the implementing partner concerned did not take the necessary action. UNHCR considered that the payment was, in the circumstances, unavoidable.

87. In Bosnia-Herzegovnia, all of the 20 sub-agreements reviewed by the Board were signed after the commencement of the sub-projects concerned.

88. In the Former Yugoslav Republic of Macedonia, in some cases, sub-project agreements were signed after the termination of the projects. The Management stated that in one case they had signed a Letter of Understanding with the implementing agency concerned: this, however, did not have legal status.

89. The Board reiterates the importance of signing agreements before commencement of sub-projects.

Delays in delivery of assistance to beneficiaries

90. The Board noted, during its audit of field offices, several delays in delivery of assistance to beneficiaries. For instance, in the Former Yugoslav Republic of Macedonia, against monthly payment of cash grants payable to host families, payments were actually made only once in three to four months due to administrative delays. In Azerbaijan, under a seed programme, although seeds were distributed in April 1994, agricultural tools were distributed two months after the sowing season, which according to the report of the implementing partner, resulted in low level of interest in the scheme among beneficiaries. Similarly, distribution of jackets and heaters meant for use by beneficiary population during the winter months of 1994 was completed only in March 1995. The Administration, however, stated that the observations of the implementing partners were not reflected in the sub-project monitoring reports (SPMR) which referred to widespread implementation of the programme.

91. The Administration informed the Board that the delays in procurement and distribution of agricultural tools, jackets and heaters were unavoidable due to procedural requirements, difficulties in identifying reliable suppliers and transportation problems. The Board appreciates some of the operational difficulties but considers that timely assistance to the needy beneficiaries is an important requirement of all refugee welfare programmes. The Board therefore recommends that UNHCR should plan the programme deliveries more carefully in order to ensure the effectiveness of the assistance provided.

Deficiencies in project implementation

92. The Board, in its report for the year ended 31 December 1994, had highlighted the importance of careful selection of implementing partners and the need to exercise adequate control over them to ensure efficient and economic implementation of programmes and projects.

93. During the audit of the Dar-es-salaam office, the Board observed that the inefficient implementation of a project by an implementing partner had resulted in inadequate programme delivery and significant financial loss to UNHCR as follows:

(a) The implementing partner was provided with a fleet of 97 trucks including 17 water tankers for operation in a sub-region; but it did not engage

qualified and competent staff to operate the fleet which resulted in high accident rates and low vehicle availability. This, in turn, affected programme delivery;

(b) The implementing partner failed to procure duty-free diesel fuel for supply to other implementing partners and to the Dar-es-salaam office. According to an assessment by the UNHCR field office, the overcharges came to about $25,000 per month;

(c) Although the implementing partner procured diesel fuel out of UNHCR funds, it charged Sub-Office, Ngara some $43,700 for the diesel fuel supplied from January to May 1995. Management had stopped this practice from June 1995, but there was no evidence of action taken to recover the overpayment;

(d) The implementing partner recorded issues of diesel fuel valued at $243,700 as issues to other implementing partners, resulting in understatement of stock to that extent. In addition, there were claims of short receipt of diesel fuel valued at $74,600 said to have been issued by the implementing partner in the five months period upto July 1995. The implementing partners record did not permit reconciliation of these differences.

(e) The implementing partner issued diesel fuel valued at about $21,400 on the basis of forged or stolen requisitions. The case is reported to be under police investigation.

94. The Board recommends that UNHCR should assess the capability and background of implementing partners in more detail and exercise closer control on implementation of programmes and projects. The Board also recommends that the transactions carried out by the implementing partner concerned should be investigated and overpayments recovered.

Project monitoring

Project monitoring at headquarters

95. In its report for the year ended 31 December 1994, the Board had recommended that a proper system of collection, recording and analysis of information regarding programme implementation should be established in the UNHCR headquarters early. The UNHCR Administration had informed the Board that a new software had been implemented at its headquarters to follow up on non-submission or incomplete submission of reports. However, in 11 out of 15 files reviewed by the Board at UNHCR headquarters in April 1996, project monitoring reports (PMRs) for different periods had not been received or were received late. The Board verified that the software developed and delivered in December 1995 for the purpose of monitoring had not been fully put to use as of May 1996.

96. While appreciating the efforts made by UNHCR in addressing the issue, the Board recommends that the Administration should ensure that PMRs are received on time and used for monitoring purposes by all programme managers.

Delays in submission of sub-project monitoring reports (SPMRs)

97. The Board's findings at the UNHCR headquarters were supplemented by findings from the field offices selected for audit. In Tanzania, SPMRs were delayed from several implementing partners for periods ranging from 22 to 28 months. In the Russian Federation, SPMRs were delayed from all implementing partners. In Rwanda, SPMRs were submitted only when the implementing partners requested the subsequent instalments of funds. Similarly, in Ethopia, there were substantial delays in receipt of SPMRs relating to 7 projects in 1994 and 10 projects implemented in 1995. The Board's scrutiny in the same office also revealed that the SPMRs did not indicate targets nor provide explanations for

delays. The Management stated that it was aware of the poor quality of reporting by implementing partners.

98. The Board recommends that all implementing partners should be required to submit SPMRs regularly and with complete details as required in the UNHCR manual.

Evaluation

Inadequate evaluation of projects

99. In Azerbaijan, Management was yet to establish adequate procedures for evaluation of the benefits arising from its programmes and projects. For instance, there were no records to show that Management had carried out any evaluation of the benefits derived out of a seeds project nor had collected data regarding the extent of income and employment generation attributable to the programme, as required. The Management, while accepting that it was aware of this shortcoming, stated that it was allocating more time to systematic evaluation of project activities.

100. The Board recommends that appropriate procedures be established by all field offices for evaluation of achievements and outputs of programmes and projects. The findings of such evaluations should be utilized in programme planning and implementation of future projects.

Procurement

Receiving reports

101. UNHCR field offices are required to submit a receiving report to the Supply and Transport Section (STS) at the UNHCR headquarters for each international shipment received by them within one month of arrival at the destination. The receiving report confirms the fulfilment of the suppliers' and carriers' obligations to UNHCR and, in the event of loss or damage, becomes the basis for insurance claims.

102. The Board's review of the status of receiving reports in respect of Purchase Orders placed for field offices, as of May 1996 disclosed that some 1,305 reports were outstanding for periods shown below:

Period	No. of receiving receiving reports	Percentage
Under 6 months	263	20
6 months - less than 1 year	249	19
1 year - less than 2 years	502	39
2 years - less than 3 years	154	12
3 years - less than 4 years	53	4
4 years and above	84	6
	1305	100

103. The Board noted that in respect of 1995, only 694 receiving reports (54 per cent) had been received against 1286 purchase orders placed during the year. As of May 1996, none of the receiving reports due from the following field offices, in respect of 67 purchase orders issued during 1995, had been received.

Name of Country	No. of POs issued
Afghanistan	5
Ethiopia	50
Libyan Arab Jamah	1
Malaysia	1
Niger	1
Senegal	6
Ukraine	3
	67

104. The Board verified that several receiving reports submitted by field offices were incomplete. For instance, in certain cases there were no indications whether goods were received in good order and conformed to specifications and quantities requisitioned. A review of 55 cases at the UNHCR headquarters disclosed that the UNHCR Administration had not initiated action with the suppliers, the transport agencies or the consignees to ascertain the status of the purchase orders. Also in several cases examined, copies of paid vouchers were not kept in the relevant files. Since UNHCR makes final payments for goods on the basis of shipping documents, packing weight lists and inspection certificates, the Board considers that the present system could lead to uncertainties about actual receipt of goods at the destinations, although suppliers had been paid. The UNHCR Administration clarified that receiving reports are often delayed due to difficulties in securing the clearance of consignments through customs, as in the case in Ethiopia. UNHCR was, however, fully aware of the problem and was reviewing the process.

105. The Board had recommended in its report for the year ended 31 December 1992 that field offices should be instructed and given set dates to comply with the reporting requirements since prompt submission of a properly completed receiving report is essential to monitor and follow up timely receipt of ordered goods. The Board reiterates its recommendation in view of the inadequate progress achieved in this area. Prompt follow-up action should also be taken to call for outstanding reports, analyze them on receipt and file insurance claims where goods have been short-delivered or delivered in damaged condition.

Follow-up by field offices

106. The Board noted that the UNHCR headquarters had placed 184 purchase orders during 1994 and 1995 for procurement of essential items including blankets and plastic sheets for distribution by the Dar-es-salaam office, but the latter did not have a proper system of recording the data regarding the ordered quantity, scheduled dates of delivery, actual quantity received, dates of receipt and short delivery. In the absence of such details, the actual quantity of goods received for different destination points could not be reconciled with the quantity ordered against each purchase order.

107. The Board's test check of 37 purchase order files in the Branch Office, Dar-es-salaam revealed that in respect of three purchase orders documentation was incomplete. Further, in eleven cases, materials valued at $23,000 were short delivered by the transporter-cum-clearing agent, but there was no evidence of follow-up action taken by Management. The Board also noted that in nine cases, materials were delivered at the destination after delays ranging up to twelve months due to belated issue of delivery instructions to the transporters, and in six cases, Branch Office, Dar-es-salaam paid demurrage charges amounting to $50,000 due to delays in taking delivery of consignments from the port.

108. Management attributed these delays to the emergency situation in the country, lack of adequate staff, lack of shipping documents, delays in allocating

final destinations for the consignments and slow clearance by clearing agents. Management has since strengthened UNHCR's follow up by increased utilization of the Commodity Tracking System (CTS). The Board, however, recommends that all relevant data in respect of each purchase order should be recorded appropriately to enable the field offices to track the receipt of supplies against purchase orders placed by the UNHCR headquarters.

Unplanned procurement

109. The Board had, in its report for the year ended 31 December 1994, pointed out the need to improve procurement planning. The UNHCR Administration has since informed the Board that annual procurement plans were received from 52 out of 117 countries (see paragraph 21 of annex).

110. The Board noted that Regional Liaison Office, Addis Ababa had an undistributed stock of 1033 kitchen sets, 3717 kerosene stoves and 41 cartons of sewing machines in completely knocked down condition since December 1992. This suggested that the purchases were not need-based.

111. The Board also noted that the UNHCR field office in Rwanda had not prepared its annual procurement plan, as required, which deprived it of the benefit of centralised procurement at competitive rates. The quotation requests issued by that office to suppliers did not contain adequate details including the specification, the lead time for supply, mode of transportation and destination of supply. Consequently, the rates quoted by the different suppliers could not be analysed on a comparable basis. The Administration informed the Board that it has since established a proper system, as recommended by the Board.

112. The Board reiterates the need to undertake detailed procurement planning by all UNHCR field offices to ensure economy and efficiency in procurement. UNHCR should also consider disposition of the surplus items in Addis Ababa to other field offices where they are required.

Procurement by implementing partners

113. The Board noted that the Liaison Office, Skopje, the Former Yugoslav Republic of Macedonia had entered into an agreement with an implementing partner for procurement of clothes and shoes for refugees on competitive bidding basis. The Board, however, did not find evidence to show that Management had verified adherence to the terms of the sub-project agreements by the implementing partner before releasing final payments.

114. The Board's random scrutiny of the procurement files of an implementing partner in Baku disclosed that the agency did not prepare purchasing plans based on the activities included in the approved budget. The agency had also procured materials required for project implementation such as electrical pumps, without resorting to bidding procedures; besides, the agency's documentation was inadequate and did not contain essential items such as invoices, receiving certificates and purchase agreements.

115. The Board noted that in Croatia, the purchase price for classroom supplies procured by an implementing partner in 1993 and 1994 appeared to be high vis-à-vis prices paid by the UNHCR field office in 1995. Similarly, the field office was able to procure seed parcels at substantially lesser rates than that budgeted by an implementing agency.

116. In the Dar-es-Salaam office, in respect of a water supply scheme managed by an implementing partner, monoblock pump sets procured at a cost of about $240,000 were sub-standard and unusable. The defects were noticed by the Dar-es-salaam office when the implementing partner was substituted by another agency. The Administration told the Board that the implementing agency did not follow

established procedures due to urgent requirements and that the pumps have since been repaired by the new implementing agency.

117. The Board recommends that UNHCR field offices should be instructed to review the procurement procedures adopted by implementing partners and ensure that they adhere to transparent bidding procedures.

Procurement of Lysol

118. Based on a request from the Office of the Chief of Mission, Belgrade (OCMB), in July 1993, UNHCR headquarters placed an order for the supply of 1.02 million litres of an industrial grade disinfectant, Lysol, at a cost of $1.51 million for use in former Yugoslavia. The supplies were completed in October 1993. Meanwhile, the UNHCR headquarters, based on a further request received from OCMB in September 1993, placed a second order for supply of 0.6 million litres of Lysol to be supplied in one-litre bottles, for distribution for domestic use. The Board noted that no evaluation of the stock-in-hand of the earlier procurement was made before placing orders for the second supply, in spite of the fact that the earlier supply was incomplete. Moreover, though OCMB expected to receive a milder solution of Lysol at a much lower concentration level than industrial disinfectant, this was not specified in the requisition which resulted in the repeated procurement of industrial grade disinfectant.

119. The Board observed that when the second supply of Lysol reached the port of destination, the local government authorities refused to clear the import. Moreover, they also declined to allow further release of Lysol, imported in the first consignment, from the warehouse for distribution except for 100 metric tonnes which had been distributed already. The Board noted that the Government's refusal followed criticisms in the local press about the hazardous nature of the imported chemicals.

120. The UNHCR Administration stated that the government authorities had insisted on the dire need for disinfectant for refugees. Further, for reasons beyond UNHCR's control, the government authorities rejected the importation of the consignments retroactively, even though these were standard disinfectants used in refugee situations worldwide. The Board noted that the UNHCR Administration subsequently decided to re-deploy 0.36 million litres of Lysol to UNHCR operations elsewhere and returned the remaining 1.1 million litres to one of the suppliers at a nominal price of some $0.20 per litre against the average procurement cost of $1.45 per litre. The UNHCR Administration estimated the total financial loss suffered in the transaction at $3.04 million. While the Administration considered that the loss resulted from decisions of the government authorities and was beyond UNHCR's control, the Board is of the opinion that a substantial part of the above loss could have been avoided.

121. The Board recommends that UNHCR should improve its procedures for need-assessment and undertake more detailed planning and analysis, in concert with all user-agencies, before procurement of bulk commodities.

Human resources management

Training

122. The Board was pleased to note that UNHCR had conducted 298 training programmes in 1995 as compared to only 167 programmes conducted in the previous year. The Board's review of the topics of the training programmes held during the year indicated, however, that there was scope to increase the number of programmes closely related to UNHCR's operational requirements. The UNHCR Administration proposes to implement the Board's recommendation through training

programmes for Administrative/Finance officers and Resource Management training as soon as funds become available.

Training of implementing agencies' personnel

123. The Board was pleased to note that, of the total of about 5,700 persons trained by UNHCR in 1995, about 1,260 (22 per cent) were affiliated to Governments and about 500 (8 per cent) to Non-Governmental Organizations (NGOs). The Board however, noted that of these participants, only 3 were trained in Administration and Finance and 6 in Procurement and Logistics.

124. The UNHCR does not obtain any prior commitment from the sponsoring agencies that the personnel deputed for training would continue to work for a reasonable period in the areas in which they were provided training. The UNHCR Administration considered that due to unplanned and sometimes frequent changes of NGO/Government implementing partner staff, seeking such a commitment would be difficult. The Board is however of the view that obtaining such a prior commitment would enhance the effectiveness of UNHCR's training efforts.

125. The annual calendar of training is drawn up on the basis of training needs identified by field offices. However, the Training Activity Planning Forms (TAPF) received from field offices do not contain details of the training already provided. The UNHCR Administration envisages that when the Career Management System (CMS) is implemented in 1996-1997, field offices will become responsible for ensuring that all staff are aware of the competencies required for their jobs and of any gaps which must be met through training.

126. The Board recommends that training inputs should be augmented by providing additional programmes in Administration and Finance, Procurement and other important functional areas. The Board also recommends that appropriate procedures should be formulated to encourage sponsoring agencies to place their trained personnel for an appropriate period of time in the areas in which training was given. Also, the field offices should be required to provide, through TAPF, the details of the training already provided to facilitate the preparation of annual calendars of training.

Implementation of Integrated Management Information System (IMIS)

127. In UNHCR computerization was developed, over time, as a mix of both package and in-house developed software. According to the Administration, this development took place within an overall framework of user requirements which was, in effect, the organizational strategy. The Board, however observed that until 1995, there was no well-documented approach for any linkage or eventual switch-over to IMIS. Consequently UNHCR was unable to ensure that the IMIS developed at the United Nations headquarters would meet UNHCR's specific needs. From 1989 onwards, UNHCR had spent some $6.3 million to develop its own system for project control, financial and personnel management and budgeting which were considered adequate for its needs. The Administration clarified that there was no opportunity to link to IMIS because there was no indication at that time, of the contents or structure of IMIS. The Administration also stated that it has since undertaken a gap analysis in the area of personnel modules which have been specified and delivered.

128. The Board, in its report for the year ended 31 December 1992, had recommended that UNHCR should continue to develop its plan and strategy for the computerization of its financial and personnel management system in a more comprehensive and integrated form and in close coordination and communication with United Nations IMIS committee in order to benefit from their experience. In November 1992, UNHCR prepared a work plan consisting of twenty months implementation schedule to introduce IMIS in phases. In October 1993, it was decided to recruit a consultant to define UNHCR's requirements in the financial area. However, before the consultant could be recruited, the project was

temporarily suspended in April 1994, and the staff were diverted to carry out improvements in the systems developed in-house by UNHCR.

129. In November 1995, UNHCR agreed, on a request from the United Nations Secretary-General, to renew its contacts with IMIS; but subsequently decided to wait for the results of the DELPHI project, due in May 1996. UNHCR also identified the customization cost at $2.14 million; but considers that no equivalent costs can be identified for the other modules until they have been examined in detail and a gap analysis completed.

130. In response to the Board's query, the UNHCR Administration stated that IMIS was never conceived for project control for field based organizations; nor does it contain certain essential modules that would allow the organization to depend entirely on IMIS. Further, UNHCR's expenditures of over $6 million on its computer systems have provided it with full functionality in the areas of human resources, finance and project control which could not await implementation of IMIS. The Administration informed the Board that based on the results of Project DELPHI, a comprehensive new information technology strategy would be prepared by August 1996 which, however, will not address the functionality of IMIS for the reasons previously stated. The Administration also stated that due to the delay in development of the financial module in IMIS and in the absence of full assurance that the financial component of IMIS would meet UNHCR's basic requirements, any efforts at customization of Release 1 of IMIS may have led to only a partial implementation of IMIS which was not attempted.

131. The Board recommends that UNHCR should expedite the information system strategy for developing and updating its information system compatible with UNHCR's corporate objectives. This strategy should consider, among other things, an in-depth evaluation of current systems, the software and hardware requirements and the customization of IMIS to meet the specific requirements of UNHCR and include the implementation priorities.

Cases of fraud and presumptive fraud

132. As required under the United Nations Financial Regulations and rules, the UNHCR Administration reported eight cases of fraud and presumptive fraud during the year. Details of cases involving sums of more than $10,000 are set out in the following paragraphs:

Armed robbery

133. In one case in Tanzania, armed robbers removed $109,475 and Tsh 7,404,720 ($13,488) from the safe of an implementing partner. The money was an instalment paid by UNHCR. Since most of the project was implemented without additional funds, the UNHCR Administration maintained that no replenishment would take place.

Acceptance of gifts by staff

134. In another case, the Administrator/Programme officer in Tashkent voluntarily disclosed in August 1995 that $90,000 had been accepted by UNHCR staff members, including himself, as 'unsolicited gifts' in connection with the procurement of roofing sheets. Of this, an amount of $80,000 was reportedly recovered. The UNHCR Administration summarily dismissed the international staff member concerned while two local staff members voluntarily resigned.

Acknowledgement

135. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the High Commissioner and her officers and their staff.

Osei Tutu PREMPEH
Auditor-General of Ghana

Sir John BOURN
Comptroller and Auditor General of the
United Kingdom of Great Britain
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Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

31 July 1996

Annex

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the period ended 31 December 1994 a/

I. RECOMMENDATION 9 (a)

1. A proper system of collection, recording and analysis of information regarding programme implementation should be established at UNHCR headquarters soon and should be used to undertake more regular periodical monitoring of the implementation of programmes and projects by the field offices and the implementing agencies.

A. Measures taken by the Administration

2. New software procedures are now implemented which will enable Headquarters Desks to systematically remind field offices of reporting not submitted, incomplete or erroneous.

B. Comments of the Board

3. The Board's review disclosed that Project Monitoring Reports were not available in several files either in the form of paper folios or on computer diskettes. The Board noted that the new project monitoring and closure software has been installed. This should help the UNHCR headquarters to track the regular receipt of monitoring reports, when fully established.

II. RECOMMENDATION 9 (b)

4. Programme planning should be strengthened to ensure that Letters of Instruction (LOIs) are issued in time and detailed work plans are prepared for all programmes and projects. The signing of precisely worded project and sub-project agreements with implementing partners should be ensured prior to the start of the projects.

A. Measures taken by the Administration

5. There are now no significant problems with timely issue of LOIs. Work Plans are also now no longer an issue since UNHCR has changed instructions to ensure that they are only prepared when they have a purpose and meaning.

6. There have been no significant changes to the wording of sub-agreements; but instead the Implementing Partners' Handbook which is now being published contains precise instructions on what clauses mean and how they should be interpreted.

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a/ Official Records of the General Assembly, Fiftieth Session, Supplement No.5E (A/50/5/Add.5), sect I, para. 9.

B. Comments of the Board

7. The Board's test examination disclosed that LOIs were generally issued on time. The Board, however, observed that delays continued to occur in signing of sub-agreements with implementing partners, as brought out in the present report. The Board's view regarding UNHCR's revised policy on preparation of work plans has also been included in the present report.

III. RECOMMENDATION 9 (c)

8. UNHCR should be more selective in identifying the implementing partners and restrict their number to the optimum manageable level. Multiplicity of implementing agencies and overlapping of their functions should be avoided to ensure economy in overhead cost.

A. Measures taken by the Administration

9. There is seldom a wide range of potential implementing partners available when an operation begins and UNHCR frequently is obliged to work with agencies which are not adequately prepared to assume the necessary responsibilities. UNHCR has however restated the audit points to all field offices and asked for systematic review of implementing arrangements to ensure that those which exist are the most appropriate available. UNHCR is also carrying out an evaluation of implementing arrangements as part of the 1996 evaluation plan to further study why some partnerships work better than others.

B. Comments of the Board

10. The Board appreciates the action taken by UNHCR Administration in the matter and will review the progress achieved in its future audits.

IV. RECOMMENDATION 9 (d)

11. UNHCR should ensure that all implementing agencies provide audited accounts, supported with audit certificates, from independent audit authorities.

A. Measures taken by the Administration

12. UNHCR considers that this is extremely difficult to ensure; but has emphasised this requirement to all field offices. The UNHCR policy and practice are under active discussion under the auspices of the Audit Committee.

B. Comments of the Board

13. The Board noted that most of the implementing partners do not submit annual accounts supported with audit certificates from independent audit authorities. The Board has, therefore, reiterated its view in the present report.

V. RECOMMENDATION 9 (e)

14 UNHCR should ensure that implementing partners maintain separate accounts for UNHCR funds. UNHCR should also develop an appropriate monitoring procedure to ensure compliance with established requirements.

A. Measures taken by the Administration

15. UNCHR has included this requirement as part of the revised instructions issued to field offices. UNHCR is continuing to monitor the situation to the extent possible with existing resources.

B. Comments of the Board

16. The Board's audit of field offices during 1995 disclosed that in several instances, implementing partners did not maintain separate accounts for UNHCR funds. The Board was informed that in some cases, local regulations prevent implementing partners from operating more than one dollar account. The UNHCR Administration should continue to monitor the compliance of the instructions and grant exemptions only where the local regulations prevent implementation.

VI. RECOMMENDATION 9 (f)

17. UNHCR should review and strengthen the procedure for receipt of periodic project monitoring/sub-project monitoring from all implementing agencies. UNHCR should also ensure that programme managers take timely action to review such reports and initiate corrective actions.

A. Measures taken by the Administration

18. A new software and procedures have been developed to enable monitoring and follow-up at headquarters and exception reporting to field offices. The new procedures also specify field office requirements but this needs continual monitoring.

B. Comments of the Board

19. The Board reiterates its comments on the need for closer monitoring and follow-up on the submission of project monitoring reports.

VII. RECOMMENDATION 9 (g)

20. Annual purchasing plans should cover a wide range of commonly used articles. All major user-offices should be involved in the preparation of such plans.

A. Measures taken by the Administration

21. According to UNHCR, the response from the field offices in 1995 was much better than in any previous years. Purchasing plans have been received from 52 countries. These plans, which include almost all the major UNHCR programmes, detail the bulk of food and non-food requirements for 1996. This information will be used to define, inter alia, UNHCR's strategy for future frame agreements. The experience gained from this exercise will be used to further refine the information requested from the field in the 1996 programming exercise.

B. Comments of the Board

22. The Board appreciates the progress made in preparation of annual purchasing plans during 1995 and encourages UNHCR Administration to obtain the required information from more field offices, in future.

VIII. RECOMMENDATION 9 (h)

23. Market survey mechanisms for collecting data regarding reliable sources of supply, trend of prices and the lead time required for the supply of materials should be strengthened. These should be made available to the requisitioning officers to enable better purchase planning.

A. Measures taken by the Administration

24. The revised purchasing system is now operational including latest prices and lead times are now incorporated in the list of most commonly purchased items. Research and survey are ongoing activities.

B. Comments of the Board

25. The Board has no further comments.

IX. RECOMMENDATION 9 (i)

26. Suitable provisions should be included in the quotation requests to indicate the estimated quantities likely to be purchased so as to generate more competitive bids. Field Offices should be authorized to operate on frame agreements, subject to quantity and budget restrictions.

A. Measures taken by the Administration

27. Estimated quantities arising from the annual purchasing plan and figures from the last year's exercise are included in quotation requests. Regional procurement officers can use the frame agreements established by headquarters.

B. Comments of the Board

28. The Board has no further comments.

X. RECOMMENDATION 9 (j)

29. Maximum publicity should be given through advertisements before finalizing frame agreements so that world-wide competition could be generated for bulk purchase commodities.

A. Measures taken by the Administration

30. Through the use of worldwide open tender for all new long term agreements, UNHCR has widened its range of suppliers and hence widened competition for UNHCR business.

B. Comments of the Board

31. The Board noted that three frame agreements were finalised during 1995 on the above basis.

XI. RECOMMENDATION 9 (k)

32. Transparent procedures should be established for regular vendor performance evaluation and vendor rating. Vendor lists should also be updated periodically.

A. Measures taken by the Administration

33. Vendor rating criteria are still under study. UNHCR has consulted with a number of sister agencies as to their own experience in this domain and is currently awaiting details in response. However, most of the agencies appear to be in the same situation as UNHCR.

34. In the meanwhile, buyers are encouraged to submit their comments on a particular vendor to their senior officer. The comments will be reviewed for accuracy and impartiality and if confirmed will be entered into the vendors file. The vendor selection menu in the purchasing system will shortly be amended to alert the buyers of any comments concerning a specific vendor.

35. Procedures for approval of the bidder's list are implemented.

B. Comments of the Board

36. The Board recommends that a definite time frame be established to put in place a transparent and appropriate vendor rating system.

XII. RECOMMENDATION 9 (l)

37. Efforts should be made to implement the new asset management system as early as possible, and pending the same, suitable arrangements should be made to track and record all acquisitions of property in the existing system. UNHCR should ensure that all field offices and implementing partners maintain adequate records of properties and carry out periodic physical verification.

A. Measures taken by the Administration

38. The MINDER system is now implemented in all but 10 countries and UNHCR estimates 80 per cent to 90 per cent coverage overall. There are 20,000 assets recorded with an estimated value of $140 million.

B. Comments by the Board

39. The Board noted the progress in implementation of the system.

XIII. RECOMMENDATION 9 (m)

40. The system of maintenance of inventory records, trip sheets, and monthly control registers in respect of vehicles should be improved by issuing clear instructions to the field offices and implementing partners. There should be regular analysis of fuel consumption and repairs and maintenance expenditure to ensure that economy in expenditure is achieved.

A. Measures taken by the Administration

41. Instructions quoting this audit recommendation were issued to all field offices in June 1995. UNHCR has perceived a general improvement but will continue to monitor the practice through the normal process of examination of the monthly accounts and through the monitoring role of the Desks.

B. Comments of the Board

42. The Board appreciates the action taken by the UNHCR Administration.

XIV. RECOMMENDATION 9 (n)

43. The number of training programmes and participants should be increased to meet the planned target. The course contents should be revised to cover topics closely related to job assignments. A large share of the training slots should be earmarked for training of the personnel of the major implementing partners.

A. Measures taken by the Administration

44. UNHCR has completed (March 1994) a `train the trainers' course in Programme Management for UNHCR staff in countries neighbouring Ethiopia. These persons have committed to undertake two training workshops for UNHCR implementing partners - one on UNHCR specific process and one on generic issues. This programme will be extended to other regions during 1996.

45. In addition, the Implementing Partners Handbook will provide important guidance to implementing partners.

B. Comments of the Board

46. The Board's further observations have been provided in the present report.

XV. RECOMMENDATION 9 (o)

47. Retrospective appointment of consultants should not be made except under exceptional circumstances. Performance of consultants should be evaluated at the end of each contract period against stipulated outputs.

A. Measures taken by the Administration

48. In order to more strictly regulate the appointment of consultants, DHRM issued instructions in December 1995 regulating the appointment of consultants.

B. Comments of the Board

49. The Board noted the action taken by UNHCR Administration. The Board has no further comments.

XVI. RECOMMENDATION 9 (p)

50. Staff members and consultants should be allowed, normally, only one travel advance. Subsequent advances should be permitted only after the earlier ones have been accounted for.

A. Measures taken by the Administration

51. UNHCR has indicated that this is often due to delays in processing travel claims at UNOG. UNHCR currently has 3 staff members working in UNOG to assist in clearing the backlog. Following this, the advance situation can be regularised.

B. Comments of the Board

52. While a large number of travel claims remain outstanding due to delays in processing of the claims, the Board, during the interim audit in 1995, noted several cases of non-submission of travel claims by the travellers concerned. The Administration should pursue the matter.

XVII. RECOMMENDATION 9 (q)

53. A proper procedure should be established for accounting, pricing of goods, and periodic stock verification of the public information materials sold through public information shops.

A. Measures taken by the Administration

54. Accounting software has again been upgraded and further training has taken place. Physical stock inventory is now effected on a semi-annual basis.

55. Written guidelines for pricing of public information sales items have not yet been established. This process is intimately related to the clarification of the actual cost of the sales operation. Once costs are properly determined, UNHCR has indicated that it will be in a better position to define a new pricing policy.

B. Comments of the Board

56. The Board will review the progress achieved by the UNHCR Administration in its future audits.

XVIII. RECOMMENDATION 9 (r)

57. An investment committee should be established at the UNHCR headquarters to advise on long-term investments.

A. Measures taken by the Administration

58. UNHCR may make short term investments in accordance with financial Rule 9.1 and it is not envisaged seeking exceptions to this rule. UNHCR also does not envisage having any long term investments in the foreseeable future which would warrant the establishment of an investment committee. However, UNHCR is at present refining the investment policy and procedures with a view to broadening the basis for major decisions.

B. Comments of the Board

59. The Board noted the position.

AUDIT OPINION

We have examined the following appended financial statements numbered I to III, properly identified, and the schedules, numbered 1 to 10, the appendix and the supporting explanatory notes of the voluntary funds administered by the United Nations High Commissioner for Refugees for the financial period ended 31 December 1995, in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the financial statements present fairly the financial position of the organization as at 31 December 1995 and the results of its operations from the financial period then ended; that they were prepared in accordance with the stated accounting policies which were applied on a basis consistent with that of the preceding financial period; and that the transactions were in accordance with the Financial Regulations and the relevant legislative authority.

In accordance with our usual practice, we have issued a long form report on our audit of the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees as provided for in the Financial Regulations.

Osei Tutu PREMPEH
Auditor-General of Ghana

Sir John BOURN
Comptroller and Auditor General of the
United Kingdom of Great Britain
and Northern Ireland

Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

31 July 1996